EXECUTIVE SUMMARY

Competition in the communications industry is a given at this point. But what remains more opaque is identifying the actual competitors and competitive carrier categories. A dozen years ago, identifying the competitors was a fairly straight-forward exercise. At that time, there were two geographically-defined markets: the local market, served by the Baby Bells and other Local Exchange Carriers (LECs; also referred to as Incumbent Local Exchange Carriers or ILECs); and the long distance market, which was the domain of interexchange carriers (IXCs), the largest of which was AT&T. While the long distance market was largely opened to competitive entry in the 1980s, the local telecom market remained the LECs' realm. The walls protecting the local monopolies began to crumble around 1990 when the first "Competitive Access Providers" (CAPs) began to claw their way into the local exchange market.[1]

After CAPs bored a hole in the dike, a flood of competitors soon followed. The first waves of credible competitors were Competitive Local Exchange Carriers (more commonly known as CLECs). Today, a diverse range of service providers represent competitive forces in telecommunications markets. These sets (or sectors) may be defined by the technology used or by the services they provide. Figure 1 below presents our generalized framework for looking at competitive forces shaping the broad communications industry.

As illustrated in this diagram, the web of telecommunications competition is intricate and, at times, intractable. Discerning competitive trends and forces is, however, a necessary first step towards understanding any market and the impacts on other industry participants. Therefore, this report is intended as a resource for equipment and software vendors, the investment community, end-users, and carriers themselves. Each group needs to identify and evaluate competitive telecom service providers, particularly with respect to the geographic markets in which they operate.

[1] CAPs were aptly named as these carriers initially offered point-to-point access and related services. Their intent was to provide an alternative to the LECs for the IXCs to use for originating and terminating long distance calls. During this time, access accounted for approximately 40% of the price of long distance (i.e., if a call was 10 cents per minute, 4 cents went to access services).